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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

SEMESTER 2, 2016/ 2017

BQM7414 – SERVICE QUALITY MANAGEMENT
(EMBA)

18 MAY 2017
10.00 a.m – 1.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consist of **SIX (6)** pages including the cover page.
2. Answer **ALL** questions in **Questions 1** and **choose any 5** in **Question 2**. The marks distributions are given in parentheses.
3. Write all your answers in the **Answer Booklet** provided.

QUESTION 1:

Read the Case “Etihad Airways: Aiming to Be the Best” in Appendix 1 and answer the following questions:

- a. What unique characteristics of service are service operators and passenger airlines like Etihad Airways encountering? What unique challenges does Etihad Airways face as a result of such characteristics?

(10 marks)

- b. What steps and strategies can Etihad Airways adopt to meet the challenges and to become the best airline in the world?

(10 marks)

- c. How important is it for an airline to win awards? How can awards help in meeting the unique challenges of service marketing?

(10 marks)

- d. Why is buying the correct type and number of aircraft important to a passenger airline? Which challenge in service marketing is this task seeking to meet?

(10 marks)

- e. How important are internal communications and external communications in helping to meet the unique challenges of service marketing? What key tasks need to be taken to improve internal and external communications in Etihad Airways?

(10 marks)

[Total: 50 marks]

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QUESTION 2

Explain any **5 (10 marks each)** of the following concepts in service quality management:

- a. Service eco-system
- b. SERVQUAL
- c. Six Sigma
- d. Service oriented business model
- e. Service Dominant Logic
- f. Value co-creation
- g. The Juran Philosophy
- h. The Crosby Philosophy
- i. The Deming Philosophy

[Total: 50marks]

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Appendix 1: "Etihad Airways: Aiming to Be the Best"

James Hogan, CEO of Etihad Airways, is a busy man. He has been clocking many air miles, probably much more than the average airline CEO. He has been to Dublin to sign new agreements, Singapore to attend industry conferences, China to launch new routes, and New York to receive more industry awards to add to the growing list of accolades that Etihad has been steadily picking up in recent years.

Hogan, less than two years into his appointment as the CEO of Abu Dhabi-based Etihad Airways, has one simple goal when he is doing all this flying: to make Etihad the "best airline in the world." By some measures, Etihad is already heading in the right direction in achieving this goal. For three consecutive years starting from 2004, it has won the title of the World's Leading New Airline in the World Travel Awards.

FIRST FLIGHT

For an airline so new, it has covered a lot of ground. With a decree from Sheikh Khalifa Zayed Al Nahyan, then Crown Prince of Abu Dhabi, Etihad, which means "united" in Arabic, was given a start-up fund of US\$132 million. It made its first commercial flight to Beirut on November 12, 2003. Abu Dhabi is the largest of the seven emirates that forms the federation of the United Arab Emirates (UAE), and a key player in the Persian Gulf region that is increasingly asserting its political and economic presence. Etihad, which is chaired by Dr. Sheikh Ahmed Saif Al Nahyan, has been designated as the national carrier of the UAE.

Hogan took the helm at Etihad in October 2006, after he had left Gulf Air following a four-year stint as its CEO. He first joined the airline industry in 1975, with Ansett Airlines—the now-defunct Australian carrier—before heading to other companies in the travel and hospitality industry, including Hertz, Forte Hotels, and BMI British Midland.

In 2007 Etihad carried more than 4.6 million passengers, up two-thirds from 2.8 million in 2006. Its load factor—a measure of the proportion of seats filled each time an aircraft flies—was 69 percent, the highest ever for the airline. In the same year, 13 aircraft were added to Etihad's fleet, bringing the total to 37 airplanes. Through almost breakneck expansion, Etihad added nine destinations in the year, bringing the total to 45, and at the same time, increased frequency on routes where demand was high. Privately-held Etihad, however, does not release its financial figures. "Early indications are that 2008 will be another strong year for Etihad, with the first few days of the year seeing the airline enjoy

record-breaking passenger numbers across the network," states Hogan. "This year promises to be as exciting as the last."

The Farnborough Air Show of 2004—one of the most important annual events on the airline industry calendar, was the moment that Etihad announced its arrival in a big way, when it placed an eye-popping US\$8 billion order for 29 aircraft from both Boeing and Airbus, including the A380 super jumbo. To date, this is probably the largest single order placed by a start-up airline.

Clearly, Etihad is ambitious.

EMIRATES OF THE EMIRATES

To be sure, Etihad is not the first Middle Eastern airline to shout that it has arrived. Emirates Airline, which belongs to the government of Dubai, is the clear leader within this region. With a two-decade headstart and the astute Tim Clark as president, Emirates is the airline to beat as far as neighboring competitors are concerned. Today, Emirates is the largest Middle Eastern airline by any measure: revenue, fleet size, number of passengers carried, and network.

When asked about the inevitable comparison with Emirates, Hogan has a well-rehearsed response: "They've done a great job, they are 20 years old. We are four years old. We are a new airline—just getting established. You want to compare Etihad with Emirates today? You should do so 16 years from now. They've done a good job in their space, and we are now working in our space." Hogan has a clear mandate from the sheikhs. "My job is to put the glue into the business, develop a strong commercial platform, and continue to develop the Etihad brand," he says.

THE ABU DHABI FACTOR

Much of Etihad's growth is underpinned by the growth of Abu Dhabi itself. Just decades ago, before the discovery of oil truly had a significant impact on the local economy, the emirate's main commercial activities were the cultivation of dates, camel herding and, to a lesser extent, pearl fishing. Realizing the need to diversify their economies before the black gold runs out, Middle Eastern countries that can, have been actively encouraging economic growth in non-oil industries, with key sectors like financial services and tourism being the most favored.

Abu Dhabi was relatively late to this party, but, when the decisions were made, things got started in a way that

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is typical of the Gulf countries—big, loud, and laced with superlatives. Just as it is in the airline industry, Dubai, some 160 km away, is a clear benchmark to beat in other sectors. Meanwhile, Abu Dhabi is not only implementing mega projects of high rises and other infrastructural developments; it is also crafting for itself an image of a city that is big on arts, culture, and other “softer” pursuits of life.

With per capita GDP of some US\$63,000, Abu Dhabi is obviously a city of wealth. Most notably, Abu Dhabi is pushing ahead with the US\$27 billion Saadiyat Island (Island of Happiness) project. When completed, this 2,700-hectare island, sited 500 meters offshore, will host the world's largest Guggenheim Museum (designed by noted architect Frank Gehry), the first Louvre Museum outside Paris, and a New York University campus.

Much of the drive can be attributed to the Abu Dhabi Investment Authority, which manages some US\$875 million of the emirate's reserves, making this the largest sovereign wealth fund in the world. With this huge pot under its care, Abu Dhabi has become a magnet and major employer of foreign workers, who need to be flown in together with their belongings. Expatriates like Hogan make up four out of every five residents in Abu Dhabi's population of just over 1.5 million.

As such, Etihad has a well mapped-out role: to connect investors, tourists, and residents in and out of Abu Dhabi to the world. To serve them all, a new airport with an annual passenger traffic capacity of 20 million will be ready by 2010. Etihad is making sure that its service offerings are able to match the demands of its passengers. For example, Etihad has introduced a “courtesy” limousine service for its first- and business-class passengers, to chauffeur them from the airport at Abu Dhabi to anywhere within the UAE. Some 12,000 passengers make use of this airport transfer service every month, and with that Etihad has recently introduced new vehicles dedicated for this service.

Lest critics scoff that such a service is cheap and easy to provide in the relatively compact and oil-rich UAE, Etihad is also offering the same service for passengers getting off in Manchester, London, New York, Frankfurt, and Munich—certainly places where chauffeurs and luxury vehicles don't come cheap.

100 PLANES, US\$100 OIL, 100 NATIONALITIES

To meet the anticipated growth of both passengers and routes, Etihad is looking to place orders for up to 100 new aircraft. The airline is already plying routes that cover destinations from Brisbane to Brussels and Khartoum to Kathmandu.

Which are the new big markets that Hogan is eyeing next? “China,” he replies, with no hesitation. “China is very important, and over the next couple of years, we plan to expand into North Asia—South Korea and Japan—then West Africa, East Africa, and more of Australia and America.”

Quite evidently, Etihad, which has set a breakeven target in 2010, is not going to do so by keeping costs low and adopting a conservative stance. The price of oil, which has been rising steadily over the last few years, is also a cost issue that this carrier can't fly away from. The US\$100 per barrel mark has been breached recently, and oil consumers can only be resigned to the fact that the days of oil at US\$10 per barrel is but a distant memory of decades past.

Hogan, nevertheless, is comfortable knowing that members of the Organization of Petroleum Exporting Countries will not let up on their production and will keep the pumps on the line long enough to meet demand. Of course, as an industry veteran, the fluctuation of oil prices is certainly something that Hogan will not whine about. “That's been a fact of life for aviation. In 2002, fuel accounted for an average of 12 percent of an airline's costs. It is now 30 percent. You have to adapt and hedge,” he says. Etihad, for one, already has in place a rolling hedge program staggered over three years, which helps to protect it from fluctuations in fuel costs.

To fuel the airline's rapid expansion, not only does Etihad have to buy more airplanes, it also needs to find pilots and in-flight crew and to manage increasingly complex operations. Thus, it has been busy hiring all over the world, especially experienced airline executives. “Look at this man—Qantas, British Airways—we are getting good people,” says Hogan, referring to Michael Tan, Etihad's Singapore country manager, a man with more than three decades worth of experience in the industry.

Sold by the growth story that Etihad and Abu Dhabi represents, Hogan says that it isn't too difficult to find enough of the right people to work for the airline. “They come from all round the world. We have executives from Asia, Europe, America, and Australia. We've got people banging on our doors to join as Abu Dhabi is seen as the place to be,” he says. Etihad now has more than 4,000 employees, representing a mind-boggling 100 different nationalities. As such, to Hogan, it is “very important” to create a fair and open culture within the airline to get this diverse group of employees aligned to a common interest. Running an airline is a global business, and thus, communication is fundamental, notes Hogan.

The airline has put in place a strong internal communications program, with regular newsletters, company meetings, and other activities. Just like other well-run

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corporations, there are internal teams tasked with evaluating and making strategic decisions, based on very clear objectives. "With objectives goes empowerment. People should be given their scope to do their jobs," says Hogan. While relatively new, Etihad is certainly not about to adopt a laissez faire start-up culture. It has in place a very strong score card program for each division, where monthly updates will help to ensure they meet their objectives.

But, better known is the company's bid to build its external profile. To give the Etihad brand some lift, the airline has taken on a whole series of multiyear sponsorships related to sports, where traditionally, the most number of eyeballs will follow. For example, Etihad is now a key sponsor of the Chelsea Football Club of the English Premier League. The airline is also backing the Harlequins, an English rugby team, and is title sponsor for the Formula 1 race in Abu Dhabi that is making its debut in 2009.

If there are any headwinds facing Etihad, there seems to be little doubt that it will overcome them with not too much of a fuss. Unlike many mature and struggling carriers in the developed economies, Middle Eastern carriers like Etihad are just taking off and far from reaching cruising altitude. There are still plenty of opportunities to grab. "We are creating the air bridge between Europe and the Middle East, Europe and Australasia, and Europe and Asia. As the Middle East aviation market matures, it will create greater opportunities for us," says Hogan.

From within a less-than-three-hour flight radius from Abu Dhabi, Etihad has an addressable market that, when put together, is nearly as great as China's population of 1.3 billion. "We've got a huge population at our doorstep," Hogan says. "Our job is to create a sustainable model. We haven't said we are going to be the world's biggest airline, but we have to be smart and meet the competition."

So where does Etihad see itself heading? "Best airline in the world—very simple. Best airline in the world," Hogan reiterates.

End of Paper

